

**City of Tullahoma, TN Debt Policy**  
(As approved by Resolution No. 1560)

The purpose of this debt policy is to establish a set of parameters by which debt obligations will be undertaken by the City of Tullahoma, TN. Adoption of a debt management policy fulfills the requirements of the State of Tennessee. An additional goal of this policy is to assist decision makers in planning, issuing and managing debt obligations by providing clear direction as to the steps, substance and outcomes desired. In addition, greater stability over the long-term will be generated by the use of consistent guidelines in issuing debt.

Definition of Debt: All obligations of the City to repay, with or without interest, in installments and/or at a later date, some amount of money utilized for the purchase, construction, or operation of City resources. This includes but is not limited to notes, bond issues, capital leases, and loans of any type (whether from an outside source such as a bank or from another internal fund).

Approval of Debt: Bond anticipation notes, capital outlay notes, grant anticipation notes, and tax and revenue anticipation notes will be submitted to the State of Tennessee Comptroller's Office and the Board of Mayor and Aldermen prior to issuance or entering into the obligation. A plan for refunding debt issues will also be submitted to the Comptroller's Office prior to issuance. Capital or equipment leases may be entered into by the Board of Mayor and Aldermen; however, details on the lease agreement will be forwarded to the Comptroller's Office on the specified form within 45 days.

Transparency:

- The City shall comply with legal requirements for notice and for public meetings related to debt issuance.
- All notices shall be posted in the customary and required posting locations, including as required local newspapers.
- All costs (including principal, interest, issuance, continuing, and one-time) shall be clearly presented and disclosed to the citizens, Board of Mayor and Aldermen, and other stakeholders in a timely manner.
- The terms and life of each debt issue shall be clearly presented and disclosed to the citizens/members, Board of Mayor and Aldermen, and other stakeholders in a timely manner.
- A debt service schedule outlining the rate of retirement for the principal amount shall be clearly presented and disclosed to the citizens/members, Board of Mayor and Aldermen, and other stakeholders in a timely manner.

Role of Debt:

Long-term debt shall not be used to finance current operations. Long-term debt may be used for capital purchases or construction identified through the capital improvement, regional development, transportation, or master process or plan. Short-term debt may

be used for certain projects and equipment financing as well as for operational borrowing; however, the City will minimize the use of short-term cash flow borrowings by maintaining adequate working capital and close budget management.

#### Types and Limits of Debt:

- The City will seek to structure debt with level or declining debt service payments over the life of each individual bond issue or loan.
- As a rule, the City will not backload, use “wrap-around” techniques, balloon payments or other exotic formats to pursue the financing of projects. When refunding opportunities, natural disasters, other non-general fund revenues, or other external factors occur, the City may utilize non-level debt methods.
- The City may use capital leases to finance short-term projects.
- Bonds backed with a general obligations pledge often have lower interest rates than revenue bonds. The City may use its General Obligation pledge with revenue bond issues when the populations served by the revenue bond projects overlap or significantly are the same as the property tax base of the City. The Board of Mayor and Aldermen and management are committed to maintaining rates and fee structures of revenue supported debt at levels that will not require a subsidy from the City’s General Fund. [This provision is necessary only if the City has a source of repayment for a revenue bond, such as a water or sewer system.]

#### Use of Variable Rate Debt:

- The City recognizes the value of variable rate debt obligations and that cities have greatly benefitted from the use of variable rate debt in the financing of needed infrastructure and capital improvements.
- However, the City also recognizes there are inherent risks associated with the use of variable rate debt and will implement steps to mitigate these risks; including:
  1. The City will annually include in its budget an interest rate assumption for any outstanding variable rate debt that takes market fluctuations affecting the rate of interest into consideration.
  2. Prior to entering into any variable rate debt obligation that is backed by insurance and secured by a liquidity provider, the Board of Mayor and Aldermen shall be informed of the potential affect on rates as well as any additional costs that might be incurred should the insurance fail.
  3. Prior to entering into any variable rate debt obligation that is backed by a letter of credit provider, the Board of Mayor and Aldermen shall be informed of the potential affect on rates as well as any additional costs that might be incurred should the letter of credit fail.
  4. Prior to entering into any variable rate debt obligation, the Board of Mayor and Aldermen will be informed of any terms, conditions, fees, or

other costs associated with the prepayment of variable rate debt obligations.

5. The City shall consult with persons familiar with the arbitrage rules to determine applicability, legal responsibility, and potential consequences associated with any variable rate debt obligation.

#### Use of Derivatives:

The City chooses not to use derivative or other exotic financial structures in the management of the City's debt portfolio.

#### Costs of Debt:

- All costs associated with the initial issuance or incurrence of debt, management and repayment of debt (including interest, principal, and fees or charges) shall be disclosed prior to action by the Board of Mayor and Aldermen in accordance with the notice requirements stated above.
- In cases of variable interest or non-specified costs, detailed explanation of the assumptions shall be provided along with the complete estimate of total costs anticipated to be incurred as part of the debt issue.
- Costs related to the repayment of debt, including liabilities for future years, shall be provided in context of the annual budgets from which such payments will be funded (i.e. General Obligations bonds in context of the General Fund, Revenue bonds in context of the dedicated revenue stream and related expenditures, loans and notes).

#### Refinancing Outstanding Debt:

The City will refund debt when it is in the best financial interest of the City to do so. The decision to refinance must be explicitly approved by the governing body, and all plans for current or advance refunding of debt must be in compliance with state laws and regulations.

- The City will consider the following issues when analyzing possible refunding opportunities:
  1. Onerous Restrictions – Debt may be refinanced to eliminate onerous or restrictive covenants contained in existing debt documents, or to take advantage of changing financial conditions or interest rates.
  2. Restructuring for Economic Purposes – The City will refund debt when it is in the best financial interest of the City to do so. Such refunding may include:
    - *Restructuring to meet unanticipated revenue expectations*
    - *Achieve cost savings*
    - *Mitigate irregular debt service payments*

- *To release reserve funds.*
- *Other financial reasons, such as to obtain budgetary or cash flow relief or to address exposure to other costs/liabilities.*

Current refunding opportunities may be considered by the City if the refunding generates positive present value savings, and the City may establish a minimum present value savings threshold for any refinancing. *The City shall consider several factors when evaluating a refunding opportunity:*

- *Issuance costs that will be incurred and the interest rate at which the refunding bonds can be issued*
- *The maturity date of the refunded bonds and the replacement refunding bonds*
- *The call date of the refunded bonds*
- *The call premium, if any, of the refunded bonds*
- *The structure and yield of the refunding escrow*
- *Any other factors, such as transferred proceeds penalty*

3. Term of Refunding Issues – The City will normally refund bonds within the term of the originally issued debt. However, the City may consider maturity extension, when necessary to achieve a desired outcome, provided such extension is legally permissible. The City may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed facility and the concept of inter-generational equity should guide this decision. *The City will not extend payment terms beyond the useful life of the financed asset. when considering changes from the original term, the city shall consider several factors, including:*

- *Cost savings generated or costs averted through the change in term*
- *Impact on the city's debt portfolio as a whole*
- *The type of asset financed, it's useful life and condition*
- *Other mitigating factors or prohibitions*

4. Escrow Structuring – The City shall utilize the least costly securities available in structuring refunding escrows. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the City from its own account.

- Arbitrage – The City shall consult with persons familiar with the arbitrage rules to determine applicability, legal responsibility, and potential consequences associated with any refunding.

- *The City may refund bonded debt either by competitive bid or by negotiated sale, utilizing the method most likely to achieve the lowest cost of borrowing while taking into account both short-range and long-range implications for taxpayers and ratepayers. When making the determination as to which sale method is preferable, the City shall do an analysis of the following:*
  1. *Differences in bond structure*
  2. *Security*
  3. *Size of issue*
  4. *Relevant credit rating*
  5. *Availability of bond insurance, or other credit enhancements*
  6. *Any other factors pertinent to the issue*
  
- *Use of an underwriter for a negotiated sale - The primary role of an underwriter in a negotiated sale is to market the issuer's bonds to investors. Assuming that the issuer and the underwriter reach agreement on the pricing of the bonds at the time of sale, the underwriter purchases the entire bond issue and sells them to investors. In addition, in a negotiated sale, underwriters may provide ideas and suggestions with respect to structure, timing and marketing of the bond being sold. the city shall select an underwriter for the negotiated sale that has demonstrated both experience underwriting the type of bonds being proposed and the best marketing/distribution capabilities, and shall consider reputation, and capability to fulfill its financial commitment to the City.*

Professional Services:

The City shall require all professionals engaged in the process of issuing debt to clearly disclose all compensation and consideration received related to services provided in the debt issuance process by both the City and the lender or conduit issuer, if any. This includes “soft” costs or compensations in lieu of direct payments.

- **Counsel:** The City shall enter into an engagement letter agreement with each lawyer or law firm representing the City in a debt transaction. (No engagement letter is required for any lawyer who is an employee of the City or lawyer or law firm which is under a general appointment or contract to serve as counsel to the City. The City does not need an engagement letter with counsel not representing the City, such as underwriters’ counsel.)
  - **Financial Advisor:** *(if there is a financial advisor) A financial advisor represents only the issuer on the sale of bonds. The financial advisor shall have the necessary expertise to assist the City in selecting other finance professionals, planning the bond sale, and successfully selling and closing the bonds. The City may issue requests for proposals (RFP) or request for qualifications (RFQ) to obtain a financial advisor for a single sale or for a multi-year engagement.* The City shall enter into a written agreement

with each person or firm serving as financial advisor for debt management and transactions. Whether in a competitive sale or negotiated sale, the financial advisor shall not be permitted to bid on, privately place or underwrite an issue for which they are or have been providing advisory services for the issuance or broker any other debt transactions for the City. *The City will determine on a case-by-case basis if the services of a financial advisor are integral to the debt transaction, as well as cost-effective. the City will consider factors such as:*

- 1. The size and scope of the transaction*
- 2. The complexity of the transaction*
- 3. Avoidance of conflicts of interest*
- 4. Costs added or saved*
- 5. In-house expertise and ability of staff to access market information*

- Underwriter: (If there is an underwriter) The City shall require the Underwriter to clearly identify itself in writing (e.g., in a response to a request for proposals or in promotional materials provided to an issuer) as an underwriter and not as a financial advisor from the earliest stages of its relationship with the City with respect to that issue. The Underwriter must clarify its primary role as a purchaser of securities in an arm's-length commercial transaction and that it has financial and other interests that differ from those of the Entity. The Underwriter in a publicly offered, negotiated sale shall be required to provide pricing information both as to interest rates and to takedown per maturity to the Board of Mayor and Aldermen in advance of the pricing of the debt.

#### Conflicts:

- Professionals involved in a debt transaction hired or compensated by the City shall be required to disclose to the City existing client and business relationships between and among the professionals to a transaction (including but not limited to financial advisor, swap advisor, bond counsel, swap counsel, trustee, paying agent, liquidity or credit enhancement provider, underwriter, counterparty, and remarketing agent), as well as conduit issuers, sponsoring organizations and program administrators. This disclosure shall include that information reasonably sufficient to allow the City to appreciate the significance of the relationships.
- Professionals who become involved in the debt transaction as a result of a bid submitted in a widely and publicly advertised competitive sale conducted using an industry standard, electronic bidding platform are not subject to this

disclosure. No disclosure is required that would violate any rule or regulation of professional conduct.

Review of Policy:

This policy shall be reviewed at least annually by the Board of Mayor and Aldermen with the approval of the annual budget. Any amendments shall be considered and approved in the same process as the initial adoption of this Policy, with opportunity for public input.